

## Message Text

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11/42

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C O R R E C T E D C O P Y P A R A 2 L I N E 1 6

E.O. 11652: N/A

TAGS: PFOR, PINT, ECON, EEWT, HU

SUBJ: REFLECTIONS ON 11TH PARTY CONGRESS

1. SUMMARY: A FORTNIGHT AFTER CLOSE OF 11TH PARTY CONGRESS  
WE REMAIN IMPRESSED BY EMPHASIS PLACED ON BALANCE AND CON-  
TINUITY OF POLICY DURING CONGRESS SESSIONS. NUMBER OF  
PERSONNEL CHANGES TURNED OUT TO BE ABOUT AS PREDICTED (30 PERCENT  
IN POLITBURO, 33-1/3 PERCENT IN CC, 30-35 PERCENT IN COUNTY AND  
CITY COMMITTEES). KADAR DOMINATED CONGRESS AND HIS CONTROL OF  
PARTY IS STRONGER THAN EVER. IN HIS OPENING AND CLOSING  
SPEECHES HE WAS MODERATE IN TONE, EMPHASIZING NEED TO FIND  
PRACTICAL SOLUTIONS TO ADMITTEDLY DIFFICULT ECONOMIC PROBLEMS,  
APPEALING TO BROAD BASE OF HUNGARIAN POPULATION FOR SUPPORT,  
AND ATTEMPTING TO ASSURE NERVOUS NELLIES THAT NO RADICAL  
CHANGES ARE CONTEMPLATED. YET, WHILE A RADICAL TIGHTENING  
UP ON IDEOLOGICAL/CULTURAL FRONT, A TOTAL DISMEMBERMENT  
OF REMAINS OF HUNGARY'S 1968 ECONOMIC REFORMS IN FAVOR  
OF TIGHT CENTRAL DIRECTION, OR SWEEPING GOVERNMENT PER-  
SONNEL CHANGES ARE NOT LIKELY, GRADUAL DRIFT TOWARDS  
STRICTER CULTURAL GUIDELINES, AN INCREASED ROLE FOR  
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CENTRAL AUTHORITIES IN ECONOMY AS A WHILE, AND GREATER

ATTENTION TO INTERESTS OF RANK AND FILE INDUSTRIAL WORKERS WILL CONTINUE. ON FOREIGN POLICY SIDE, PARTY CONGRESS DUTIFULLY PLEDGED HUNGARY'S LASTING FIDELITY TO SOVIET UNION AND SUPPORTED ALL USSR'S MAJOR FOREIGN POLICY POSITIONS. NEVERTHELESS, KADAR'S REMAKRS THAT HUNGARIANS MUST ULTIMATELY RELY ON OWN EFFORTS TO SOLVE DIFFICULT ECONOMIC PROBLEMS LEADS ONE TO BELIEVE THAT HUNGARY WILL MAKE SIGNIFICANT EFFORTS TO FURTHER DEVELOP RELATIONS WITH WESTERN COUNTRIES, PARTICULARLY INCLUDING U.S., TO MAXIMUM EXTENT POSSIBLE WITHOUT DRAWING INTOLERABLE FIRE FROM USSR. END SUMMARY.

2. ECONOMIC AND SOCIAL MATTERS CONSUMED A MAJOR PORTION OF SPEECH-MAKING AT PARTY CONGRESS. IN ECONOMIC AREA HEAVY STRESS WAS PLACED UPON NEED TO FIND FAST AND EFFECTIVE METHODS FOR DEALING WITH CURRENT ECONOMIC CHALLENGES RESULTING FROM MARKED DETERIORATION IN HUNGARIAN TERMS OF TRADE. IT IS CLEAR THAT CENTRAL DIRECTION OF ECONOMY WILL BE STEPPED UP ALTHOUGH REFERENCE -- PARTICULARLY BY KADAR -- TO NEED FOR CONTINUANCE OF MAXIMUM POSSIBLE ENTERPRISE INDEPENDENCE INDICATES THAT INCREASE IN CENTRAL DIRECTION WILL PROBABLY BE CARRIED OUT GRADUALLY AND SELECTIVELY. INCREASED ROLE OF CENTRAL AUTHORITIES WILL BE UNDOUBTEDLY REFLECTED IN (A) INVESTMENT POLICY WHERE MONEY ALREADY TIGHT IN EFFECT AND NEW INVESTMENTS BEING CAREFULLY SCRUTINIZED, (B) CENTRAL PLANNING ORGANS' ATTEMPTS TO ACHIEVE BETTER COORDINATION OF PLANNING AND ELIMINATION OF "PORTFOLIO CHAUVINISM" REFERRED TO BY PRIME MINISTER FOCK; (C) DIRECTIVES TO CONSERVE RAW MATERIALS IN SHORT SUPPLY; AND (D) MEASURES BY PRICE AUTHORITIES TO RAISE PRODUCER PRICES TO LEVELS BETTER REFLECTING WORLD MARKET PRICES. IN SPITE OF INCREASE IN ROLE OF CENTRAL AUTHORITY, ENTERPRISES WILL CONTINUE TO RETAIN CONSIDERABLE AMOUNT OF INDEPENDENCE IN DETERMINING THEIR PRODUCTION PROFILES, CUSTOMERS AND SOURCES OF SUPPLY, AS WELL AS KEEPING SOME DECISION-MAKING POWER OVER INVESTMENTS. IN ADDITION, EMPHASIS ON PROFITS AS A MEASURING STICK OF ENTERPRISE SUCCESS WILL REMAIN AND PROFITABLE ORGANIZATIONS WILL BE FORCED TO PHASE OUT PRODUCTION AT AN EARLY DATE.

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MORE PROFITABLE ENTERPRISES WILL UNDOUBTEDLY RETAIN GREATEST DEGREE OF INDEPENDENCE IN THEIR OWN OPERATIONS. FINALLY, PLANNING AUTHORITIES HOPE TO MAXIMIZE USE OF INDIRECT ECONOMIC REGULATORS, SUCH AS FISCAL, CREDIT AND TAXATION POLICIES, AND TO MINIMIZE NUMBER OF CENTRAL DIRECTIVES WHICH WILL BE USED PRIMARILY AS TEMPORARY EXPEDIENTS.

3. FON SOCIAL POLICY, PARTY CONGRESS RESOLVED THAT IN FUTURE CONSIDERABLE EFFORTS WILL BE MADE TO CONTINUE TO PROMOTE MORE INDIVIDUALS WITH WORKING CLASS BACKGROUNDS INTO POSITIONS OF AUTHORITY. THIS WILL MEAN STEPPING UP OF TRAINING PROGRAM FOR PERSONS WITH WORKING CLASS BACKGROUNDS. CONSIDERABLE ATTENTION DEVOTED TO THEME OF FACTORY DEMOCRACY INDICATES THAT PROGRAMS WILL ALSO BE INITIATED TO AT LEAST MAKE IT APPEAR THAT WORKERS ARE OBTAINING GREATER SAY IN RULING OF ENTERPRISES. HOWEVER, PARTY LIKELY TO PROCEED CAUTIOUSLY, TRYING TO PACIFY INDUSTRIAL WORKERS AS MUCH AS POSSIBLE WITH COSMETIC MEASURES WHILE FAILING TO GIVE THEM REAL POWER IN DECISION-MAKING PROCESS. WAGES THEME OF EQUAL PAY FOR EQUAL WORK WAS A RECURRING ONE AT CONGRESS AND A TOUGH STANCE WAS ADOPTED TOWARDS INCOME NOT DERIVED FROM WORK. NEVERTHELESS, THERE WAS RELATIVELY LITTLE SAID REGARDING SUBSTANTIAL DIFFERENCES IN SALARIES AND BONUSES WHICH ARE PAID TO MEMBERS AND PRODUCTION WORKERS. IT CAN BE ASSUMED THAT EXISTING SIZABLE DISCREPANCIES WILL ESSENTIALLY REMAIN, ALTHOUGH EFFORTS MAY BE TAKEN TO PREVENT THEM FROM GROWING LARGER. AS WITH FACTORY DEMOCRACY, MUCH WAS SAID ABOUT NEED TO GIVE INCREASED OPPORTUNITIES FOR WOMEN AND MORE ATTENTION TO PROBLEMS OF YOUTH. YET ACTIONS OF CONGRESS DID LITTLE TO INCREASE ROLE OF WOMEN SIGNIFICANTLY IN UPPER LEVELS OF PARTY AND PRINCIPAL CONCESSION TO YOUTH APPEARS TO HAVE BEEN NAMING OF KISZ FIRST SECRETARY MAROTHY TO POLITBURO.

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4. CULTURAL POLICY: CULTURAL FRONT IS UNQUESTIONABLY AN AREA WHERE THERE HAS BEEN CONSIDERABLE DEBATE WITHIN PARTY HIERARCHY. REMARKS OF CONGRESS SPEAKERS MAKE IT APPEAR THAT SIGNIFICANT TIGHTENING UP COULD BE IN OFFING. EVEN KADAR, WHOSE WORDS TENDED TO BE BALANCED ON MOST OTHER SUBJECTS, TOOK RELATIVELY TOUGH LINE ON CULTURAL MATTERS. HIS COMMENTS, SUCH AS THAT ARTISTS SHOULD PAY MORE ATTENTION TO PROTRAYAL OF "STRUGGLE OF HUNGARIAN PEOPLE BUILDING SOCIALISM", ARE NOT LIKELY TO STIMULATE ENTHUSIASTIC RESPONSES FROM BUDAPEST'S SOPHISTICATED INTELLECTUAL COMMUNITY. YET HERE, AS IN CASE OF CERTAIN ASPECTS OF SOCIAL POLICY, TREND TOWARDS MORE OTHODOX POLICY MAY NOT BE AS PRONOUNCED IN FACT AS SUGGESTED BY CONGRESS SPEECHES. WE BELIEVE IT IS NOTEWORTHY THAT GYORGY ACZEL, WHO HAS TRADITIONALLY SERVED AS PARTY INTERMEDIARY WITH INTELLECTUAL COMMUNITY, HAS RETAINED POLITBURO POSITION AND THAT KADAR HIMSELF DURING CONGRESS MADE CONSPICUOUS APPEARANCE AT RECEPTION FOR INTELLECTUALS. WHILE THESE INDICATORS POINT TO A LESS FLEXIBLE POLICY, REAL QUESTION AT THIS POINT SEEMS TO BE WHETHER THINGS REALLY WILL GET TIGHTER AT ALL. TREATMENT OF CONTROVERSIAL WRITERS SUCH AS GYORGY KONRAD MAY OFFER EARLY TIP-OFF ON THIS POINT.

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5. ON FOREIGN POLICY KEYNOTE ADDRESS BY OLD WAR HORSE DEZSO NEMES AND STATEMENTS BY OTHERS WERE FOR MOST PART REPETITION OF USUAL PAP STRESSING SOLIDARITY WITH SOVIET UNION AND RECITING LITANY OF COMMUNIST CAUSES. AS EXPECTED, OLD RELIABLE BOGEYMAN OF INTERNATIONAL IMPERIALISM WAS ASSAULTED VIGOROUSLY AND SPECIFIC CRITICISM WAS METED OUT TO RULING GOVERNMENT OF CHILE AND ISRAELIS. TO NO ONE'S SURPRISE CHINESE WERE LAMBASTED AT LENGTH FOR THEIR ANTI-SOVIET ACTIVITIES. YET BENEATH THIS PREDICTABLE RHETORIC EMPHASIS ON HUNGARY'S NEED TO ULTIMATELY RELY ON ITS OWN RESOURCES TO MEET FUTURE ECONOMIC CHALLENGES WAS REPEATED ON NUMBER OF OCCASIONS DURING CONGRESS SUGGESTING THAT PRACTICAL NECISSITY MAY ENCOURAGE HUNGARIAN POLICY TOWARD DEVELOPED WEST TO BE SOMEWHAT MORE FLEXIABLE THAN PREVIOUSLY. IN SUMMARY OF HUNGARY'S FOREIGN RELATIONS WITH WESTERN COUNTRIES BY FONMIN PUJA, CONSIDERABLE ATTENTION DEVOTED TO TIES WITH U.S., HAILING INCREASE IN TRADE, TOURISM, AND CULTURAL EXCHANGE. PUJA NOTED THAT WHILE RELATIONSHIPS COULD NOT YET BE CALLED

NORMAL, IN VIEW OF FAILURE TO SETTLE MFN QUESTION,  
AND U.S. RETENTION OF HUNGARIAN CROWN JEWELS, GOH IS  
READY TO EXAMINE MEASURES TO PROMOTE EXPANSION OF RELATIONS.

6. ROLE OF KADAR: IT APPEARS THAT FIRST SECRETARY  
KADAR HAS EMERGED FROM LATEST PARTY CONGRESS STRONGER  
AND PERHAPS MORE DIFFICULT TO REPLACE THAN EVER. KADAR  
CLEARLY PORTRAYED AS MAN OF MODERATION WHO COULD APPEAL  
TO GREATEST NUMBER OF SEGMENTS IN POPULATION AND MOTIVATE  
HUNGARIANS TO MEET FUTURE CHALLENGES. IN HIS CLOSING  
REMARKS, KADAR'S PERFORMANCE WAS MASTERFUL, TO DELIGHT  
OF HIS AUDIENCE, AS HE REASSURED THOSE WHO "FELT A HARSH  
NEW DICTATORSHIP" WAS IMMINENT THAT THERE WAS NO QUESTION  
OF THIS COMING TO PASS SINCE "SAME OLD DICTATORSHIP OF  
PROLETARIAT WOULD BE RETAINED". UNLESS HIS HEALTH WERE  
TO FAIL, THERE APPEARS TO BE LITTLE POSSIBILITY OF  
KADAR STEPPING DOWN DURING NEXT FIVE-YEAR PERIOD.  
CERTAINLY, NO SERIOUS CHALLENGERS EMERGED DURING CONGRESS  
SESSIONS. HUNGARIANS ARE ALMOST UNANIMOUS IN SAYING THAT,  
AS LONG AS KADAR REMAINS, FUTURE INTERNAL POLICY WILL BE  
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MODERATE, ADJUSTED FROM TIME TO TIME TO MEET NEEDS OF A  
GIVEN SITUATION. WE BELIEVE THAT THIS IS AN ACCURATE  
ASSESSMENT. HOWEVER, KADAR'S DEPARTURE FROM SCENE WOULD  
CERTAINLY RESULT IN ENORMOUS INCREASE IN FEAR AND CONCERN  
ABOUT HUNGARY'S FUTURE COURSE.

7. CONCLUSION: IN EMBASSY'S OPINION CONGRESS' MOST  
IMPORTANT ELEMENTS ARE THAT (A) KADAR EMERGED FROM  
SIX-DAY SESSION IN STRONGER POSITION THAN EVER AND (B)  
HIS REMARKS PLACED SO MUCH EMPHASIS ON MODERATION AND  
CONTINUITY OF POLICY. PARTY POLICY WILL UNDOUBTEDLY BE  
LARGELY A REFLECTION OF KADAR'S PERSONAL POLICIES FOR AS  
LONG AS HE REMAINS IN PLACE. THIS PORTENDS A CONTINUATION  
OF PRAGMATIC, CONCILIATORY, RELATIVELY TOLERANT, AND  
CONSUMER-ORIENTED APPROACH WHICH HAS BEEN CHARACTERISTIC  
OF LAST SEVERAL YEARS. WHILE LIMITED TIGHTENING UP IN  
CERTAIN AREAS MAY TAKE PLACE, OUR ASSESSMENT IS THAT  
THOSE IN PARTY HIERARCHY -- SUCH AS PULLAI -- WHO FAVORED  
A RETURN TO SIGNIFICANTLY MORE ORTHODOX APPROACH HAVE  
BEEN REBUFFED BY KADAR AND THAT INTERNAL POLICIES WILL  
REMAIN MODERATE AND BALANCED, LEAVING HUNGARY WITH ONE  
OF COMMUNIST WORLD'S MOST TOLERANT AND CONSUMER-ORIENTED  
REGIMES. ON FOREIGN POLICY SIDE HUNGARY CAN BE COUNTED  
ON TO GIVE SUPPORT TO SOVIET UNION ON ALL MAJOR INTER-  
NATIONAL ISSUES BUT AT SAME TIME WILL CONTINUE TO  
VIGOROUSLY DEFEND ITS OWN DOMESTIC INTERESTS VIS-A-VIS  
SOVIETS, PARTICULARLY IN ECONOMIC AREA. PRESENCE OF  
70,000 SOVIET TROOPS AND HUNGARIAN DEPENDENCE ON SOVIET

RAW MATERIALS WILL LIMIT EXTENT OF ANY HUNGARIAN INITIATIVES TO DEVELOPED WEST. HOWEVER, IT IS OUR EXPECTATION THAT GIVEN THESE LIMITATIONS HUNGARY, WITH ECONOMIC CONSIDERATIONS FOREMOST IN MIND, LIKELY TO BE SOMEWHAT MORE FLEXIBLE IN ITS RELATIONS WITH WESTERN EUROPE, JAPAN AND U.S.

8. BIGGEST QUESTION MARK AS TO WHETHER KADAR ERA WILL CONTINUE FOR ANOTHER FIVE-YEAR PERIOD IS PARTY LEADER'S PERSONAL HEALTH. KADAR DOES NOT PRESENT ROBUST IMAGE AND APPARENTLY SUFFERS FROM EMPHYSEMA. HOWEVER, REPORTS ABOUT KADAR'S ILL HEALTH AND POSSIBILITY IT MIGHT FORCE HIM TO RETIRE HAVE BEEN CIRCULATING FOR SOME TIME. HOWEVER, LIMITED OFFICIAL USE

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WE HAVE NO EVIDENCE THAT KADAR'S HEALTH PROBLEM SIGNIFICANTLY MORE SERIOUS TODAY THAN TWO OR THREE YEARS AGO. UNLESS DRAMATIC DETERIORATION IN HIS PHYSICAL CONDITION OCCURS, HE IS LIKELY TO BE AROUND FOR ANOTHER FIVE YEARS. HUNGARIAN POLICIES THUS WILL BE RELATIVELY PREDICTABLE. MUDD

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